

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND THE COUNCIL ON SISONKE DISTRICT MUNICIPALITY**

REPORT ON FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Sisonke District Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Irregular expenditure

6. The municipality did not have adequate systems and controls for the prevention and detection of irregular expenditure and for the management and reporting thereof, as required by sections 32 and 62 (1)(b) of the MFMA. The municipality's records did not permit the application of alternative procedures. Consequently, I was unable to obtain

sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure of R200,216 million, as disclosed in note 38.1 to the financial statements.

Property, plant and equipment

7. Capital assets were disposed of without the approval of council, as required by section 14(2)(a) of the MFMA and regulation 5 of the Municipal Asset Transfer Regulations (GNR 878 of 22 August 2008). Consequently, I was unable to confirm the completeness of property, plant and equipment totalling R977,662 million (2011: R864,148 million).

Opinion

8. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Sisonke District Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended, in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Financial sustainability

10. As disclosed in note 41 to the financial statements, there is significant pressure on the municipality's cash reserves and current liabilities exceed current assets by R63, 250 million.

Unauthorised expenditure

11. As disclosed in note 38.2 to the financial statements, unauthorised expenditure amounting to R35,272 million was incurred as the municipality had exceeded the limits provided for in the votes in the approved budget.

Material impairment

12. As disclosed in note 2.1 to the financial statements the municipality impaired trade debtors by R57,195 million.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

14. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited the schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

15. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

16. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
17. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information (FMPPI)*.

The reliability of the information in respect of the selected objective is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

18. The material findings are as follows:

Usefulness of information

Presentation

19. Improvement measures in the annual performance report for all of the planned targets not achieved were not disclosed as required by section 46 of the Municipal Systems Act. This was due to inadequate internal policies and procedures over the processes pertaining to the reporting of performance information and the lack of monitoring by the performance management system (PMS) manager.

Consistency

20. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 65% of the reported indicators are not consistent with the indicators as per the approved service delivery budget implementation plan (SDBIP). This is due to inadequate oversight by municipal council of the preparation of the SDBIP and the annual performance report to ensure that the indicators of these documents are consistent.
21. Section 41(c) of the MSA requires that the integrated development plan should form the basis for the annual report, therefore requiring the consistency of objectives, indicators and targets between planning and reporting documents. A total of 26% of the reported targets are not consistent with the targets as per the approved SDBIP. This is due to inadequate oversight by municipal council of the preparation of the SDBIP and the annual performance report to ensure that the targets of these documents are consistent.

Reliability of information

22. National Treasury FMPPI requires that the indicator be accurate enough for its intended use and respond to changes in the level of performance. A total of 58% of the actual reported indicators relevant to objectives regarding the provision of water to rural

communities and improved provision of water were not accurate when compared to source information. This was due to the accounting officer not implementing adequate controls to ensure that documents and records to support the actual reported performance are properly filed and the PMS manager and internal audit not performing a detailed review of the documentation in support of actual reported performance.

Additional matter

23. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

24. Of the total number of planned targets, only 155 were achieved during the year under review. This represents 23% of total planned targets that were not achieved during the year under review. This was mainly due to the fact that indicators and targets were not suitably developed during the annual strategic planning process.

Compliance with laws and regulations

25. I performed procedures to obtain evidence that the municipality had complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the general notice issued in terms of the PAA, are as follows:

Annual financial statements

26. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Audit committees

27. The performance audit committee did not review the municipality's performance management system and make recommendations to the council, as required by municipal planning and performance management regulation 14(4)(a)(ii).
28. The performance audit committee did not submit at least twice during the financial year an audit report on the review of the performance management system to the council, as required by municipal planning and performance management regulation 14(4)(a)(iii).

Internal audit

29. The internal audit unit did not audit the performance measurements on a continuous basis and submit quarterly reports on their audits to the municipal manager and the performance audit committee, as required by municipal planning and performance management regulation 14(1)(c).

Procurement and contract management

30. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, as required by Local government: Municipal supply chain management regulations (GNR 868 of 30 May 2005) (municipal SCM regulations) 17(a) and (c).

31. Bid adjudication was not always done by committees constituted in accordance with municipal SCM regulation 29(2).
32. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by municipal SCM regulation 19(a).
33. Awards were made to providers who are persons in the service of the state and whose directors are persons in the service of the state, in contravention of municipal SCM regulation 44.
34. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
35. Contracts were not always awarded to bidders based on points given for criteria that were stipulated in the original invitation for bidding, as required by municipal SCM regulation 28(1)(a) and the preferential procurement regulations.
36. Invitations for competitive bidding were not always advertised for a required minimum period of days, as required by SCM regulation 22(1) and 22(2).
37. Construction projects were not always registered with the Construction Industry Development Board (CIDB) as required by section 22 of the CIDB Act and CIDB regulation 18.

Human resource management and compensation

38. The municipality did not submit a report on compliance with prescribed competency levels to the National Treasury and relevant provincial treasury, as required by the Regulations on minimum competency levels 14(2)(a).

Expenditure management

39. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA .
40. The accounting officer did not take effective steps to prevent irregular expenditure and unauthorised expenditure, as required by section 62(1)(d) of the MFMA.

Internal control

41. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

42. The accounting officer has not implemented oversight of the disposal of assets, the reporting of financial and performance information and addressing compliance with applicable laws and regulations.

Financial and performance management

43. Management did not ensure that proper record keeping and monthly reconciliations are available to support complete, reliable and accurate financial and performance reporting.

44. Management did not implement controls over procurement of goods and services to ensure that they comply with the requirements of the municipal SCM regulations and the MFMA.

Governance

45. The internal audit and audit committee did not adequately review the performance management system, annual financial statement and compliance with laws and regulations and report accordingly through the year.

OTHER REPORTS

Investigations in progress

46. The investigations by independent firms appointed by the province into the spending of uMzikhulu grant monies and the work performed by a project management firm are still in progress.

Investigation completed during the financial year

47. An investigation was conducted by an independent firm on request of the municipality. The investigation was initiated based on the unauthorised and irregular expenditure incurred in the 2010-11 financial year. No officials were found to be liable for the irregular and unauthorised expenditure which was therefore subsequently condoned by council.

Pietermaritzburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence